

MONTHLY

BULLETIN

OF THE

NATIONAL ASSOCIATION OF CREDIT MEN.

ISSUED FROM THE

OFFICE OF THE SECRETARY-TREASURER,

29-31 Liberty Street, New York.

V. 3

NEW YORK, APRIL 5, 1903.

no. 3

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NATIONAL ASSOCIATION NOTES.

Bulk Bills Passed.

INDIANA.

The measure referred to as pending in the last issue of the BULLETIN has received the sanction of the Legislature and will become a law in June, 1903.

CALIFORNIA.

The Bulk Bill was introduced by Senator E. I. Wolfe at the request of the San Francisco Credit Men's Association; the efforts of the latter organization being well supported by the Los Angeles branch; the bill was signed by Governor Geo. C. Pardee March 10, 1903, and took effect immediately.

DELAWARE.

The bill in Delaware was introduced at the instance of Mr. W. J. McMannis, the member of the Legislative Committee for Delaware. Mr. McMannis, who has been a member of the National Association for the past three years, exhibited excellent judgment in the handling of the question. The bill was signed by Governor John Hunn on March 24th, and is now a law.

OKLAHOMA.

The following letter from the Alton-Dawson Mercantile Co., of Oklahoma City, is self explanatory:

OKLAHOMA CITY, Okla., Mar. 19, '03.

Mr. WM. A. PRENDERGAST, Sec'y,
National Association of Credit Men,
New York City.

DEAR SIR:—

We are pleased to herewith enclose you copy of a bill passed by our Legislature just adjourned, and the same was signed by the Governor on the 18th. This bill is almost a verbatim copy of the one adopted by the National Association of Credit Men. We know you will be pleased to receive this news. We would like you to send us, if you can do so without much trouble, a copy of the late Amendments to the National Bankruptcy Law.

Thanking you in advance for the favor, we are,

Yours respectfully,

ALTON-DAWSON MER. CO.

Bulk Bills Pending.

The bills introduced in the Legislatures of Florida, Illinois, Massachusetts, Michigan, Missouri, Nebraska, New Jersey, Pennsylvania and Texas are still pending. At the time of the last advice from Michigan the bill had passed the Senate, and its passage by the House was expected at an early day. The Missouri bill failed of passage in the Senate, but its friends are endeavoring to secure a reconsideration.

The West Virginia measure was unacted upon at the time the Legislature in that State adjourned *sine die*.

St. Louis Convention.

RAILROAD RATES.

The Central Passenger, the Trunk Line, and the Southeastern Passenger Associations have all declared a rate of a fare and one-third for those attending the St. Louis Convention, and in our next issue we hope to announce the concurrence of the other passenger associations.

ATTENDANCE.

From present indications the attendance at the next convention will surpass any of the previous gatherings of Credit Men; a large number of the new individual members have expressed their intention of being present.

ADDRESSES.

We are extremely gratified to be enabled to announce that one of the formal addresses at the Convention will be delivered by Mr. Marcus M. Marks, President of the National Clothiers' Association. Mr. Marks's subject will be "Fraternity."

Membership Matters, Youngstown, O.

Those who attended the Cleveland Convention will recall the speech of Mr. F. G. King, of John H. Fitch Company, of Youngstown, O., in which he made a plea for "the yellow dog." Mr. King promised at that time that he proposed to show what could be done by a member in securing new members if he really had the right spirit, and he has made good his promise by sending *sixteen applications* from Youngstown alone. Not content with this, he is now about to organize a local association there, and has requested the National Secretary to visit Youngstown and assist in the work.

Assistant Secretary Stockwell has made March a banner month by securing fifty-five members, distributed as follows: Peoria, Ill., 27; Pekin, Ill., 1; Bloomington, Ill., 11; McComb, Ill., 1; Galesburg, Ill., 5; and Burlington, Iowa, 10.

Credit Men Should Insist Upon Property Statements.

Credit men are reminded that under the amended Bankruptcy Law the procuring of credit upon a false signed statement is a bar to discharge in bankruptcy; it will not answer to depend upon the statements given to the agencies, as the provision in the bill covering this point was stricken out by the Senate. The use of uniform statement blanks is earnestly commended to our members.

Annual Reports of Standing Committees.

The annual reports will be published in full in the May BULLETIN. Members will favor the Association by promptly submitting to the national office any suggestions they would like to have passed upon by the Convention at St. Louis.

New Trade Inquiry Form.

The new Trade Inquiry Form has been distributed to the entire membership, and orders aggregating 40,000 copies have been filed with the national office from March 17 to March 28th.

Symposium on Credit Insurance.

ADDRESSES BY MR. E. A. GRANT, OF THE PITTSBURG OFFICE OF THE AMERICAN CREDIT INDEMNITY COMPANY, *in favor*, AND MESSRS. DORCHESTER MAPES, OF THE SIMMONS MFG. CO., CHICAGO; JOHN C. BOSS, OF THE LIQUID CARBONIC ACID MFG. CO., CHICAGO, AND W. BRITTON ROBERTS, WITH MESSRS. LANG & COMPANY, PORTLAND, OREGON, *opposed*.

"Credit Insurance."

BY E. A. GRANT, OF THE AMERICAN CREDIT INDEMNITY COMPANY,
PITTSBURG, PA.

The subject of Credit Insurance is too comprehensive to be briefly dealt with, so it will be my object to elaborate only two or three features of it, and touch the others only at high places.

Insurance, of whatever nature, is an accumulation of small premiums from the many, to relieve the distress caused by calamity. The Company is the fiduciary of this fund, and its honest purpose should be, and is, to see that the burden is equally shared, by properly adjusting the various premiums to the risks it takes, treating all patrons alike, and when the losses come, distributing this Trust Fund to the losers in perfect equity and fairness, paying every cent that is due, and no more.

All insurance is alike in one respect, and that is, the insured must have suffered an additional loss, other than the one the company insuring him pays; and that is the safety valve of the Insurance Company, because it makes the insured more careful. It must not be possible to suffer a profitable loss. There is an Own Loss in Fire Insurance, Life Insurance, Accident, Boiler, and all other kinds of Insurance, just as there is in credit insurance; and yet this Own Loss feature is the item that obscures the vision of so many bright Credit Men. Let us look at this feature a moment: Can an honest man afford to burn out, even if his stock is insured for its full value? No! Then why not? Simply because there is a loss there that is not covered by the Insurance Policy; the loss of time in re-establishing himself in business; the loss of profit on unfilled orders; the loss of trade that is diverted to other houses while he is refitting his store; the expense of retaining his salesmen and employees, and numerous other expenses and annoyances that no doubt have already suggested themselves to your mind.

In Life Insurance the man must have suffered death, and his family have been deprived of his support and society, before the Insurance Company has the loss.

In Accident Insurance you must not only have lost your time from your business, but necessarily must have suffered anguish of body and mind, and probably been put to great expense for doctors and nurses, before you have a claim against the Insurance Company; and while the Company pays you \$25, \$50, or \$100 a week, as the case may be, for your lost time, it don't pay for your physical suffering or expenses.

I submit that these conditions are right, and just, and the safety of an Insurance Company, which should be paramount to all other considerations, is effected by this very penalty which the insured must suffer, if he has to collect his Insurance.

You can thus easily see the effect, and the justice, of having an Own Loss in a Credit Insurance Bond. The effect of it is, first, to make you cautious, because you don't want to lose even that much money, and next, to make the Company safe. It is right, too, that this Own Loss, or Loss Limit, should be fixed at a sum not based on your actual past experience, but a sum that will justify the Company in taking the risk, and at the same time would not be in the nature of a calamity to the Insured. This sum must necessarily differ in different businesses, and in different houses in the same line of business; and be governed, too, by the general condition of the country at that time, and of the conditions which may probably come around.

The premium must not be confused with or made a part of the Own Loss. It is not a part of the Own Loss, but a specific sum paid to a company to take the risk, over and above a certain per cent. on annual sales. Nor is it fair, to add the premium and the Own Loss together, and say, "That is what Credit Insurance costs me." Because whether you take a bond or not, you can lose as much as the Own Loss, and you may lose a great deal more. The premium is *all* Credit Insurance costs, and you pay that amount, to have the Company draw a line, as it were, where your losses will positively cease, provided your sales are made within the

province of the bond; and that means on the basis of good credit granting.

The Premium is earned every year, whether you have a loss or not, by facilitating your business, and giving you a peace of mind, that is very welcome to a conscientious Credit Man.

You may ask, why do we want your Experience before naming you a rate, if we are not going to let that govern. The information we get from your Experience Statement has a very material effect on the rate, in this way, it shows us how you have been passing on your Credits, whether you have been careless, reckless, or conservative; or, if you please, lucky or unlucky.

As an illustration, I recently wrote a Bond for a firm whose experience for four years past showed not a dollar lost; the fifth year back they lost \$169. This firm bought an \$8,000 Bond at an Own Loss of \$1,200, being $\frac{3}{5}$ of one per cent., and are delighted with their bond. From this you see it would have been impossible to have taken this firm at their actual experience, for that would mean no Own Loss. They realized, that no matter whether they had lost anything or not, the risk was there, and they wanted it covered.

You will notice probably every day, or many times a day, a carriage will drive up to a bank and four young men get out with one or two satchels of money. This is the method pursued by banks in paying their balances.

Does it seem strange that the bank will pay two or three dollars for a carriage and send four men to carry \$5,000 or \$10,000 across town? Why do they do it? To insure its safe delivery. But, you may say, they have never lost any money before, why should they take such precautions now? Because the risk is there, just the same. And when you have \$10,000, or any other sum in open accounts, or in other people's hands, there is a risk, whether there is a loss or not.

The man who sells goods on open account without a Credit Insurance Bond is fooling himself, because he doesn't know what his goods cost him. The cost of goods is the most deceptive item in Commercial Life, and ignorance of this one feature is probably the cause of more failures than anything else. The cost of goods means not what they cost you at the factory, or at your store, freight and drayage paid, but what they cost you by the time they get into your customers' hands. Thus to ascertain the cost, we must add to our invoice price a percentage to pay all necessary expenses until the goods leave our hands, such as rent, clerks' hire, postage, stationery, interest, insurance, bad debts, etc.; then when we know what they cost, we can add our percentage for profit.

To illustrate, suppose a lumber dealer buys a car of boards at \$18 a thousand, freight cost \$1 a thousand, and he figures the cost to be \$19 per thousand. If then he sells them at \$20 per thousand, he thinks he is making money, but if his expenses are \$1.50 a thousand, he is really losing money.

"Bad Debts" is as much an item of expense as any other, and should properly be charged as such; but the only way you can know how much this item should be, is to have a Credit Insurance Bond, which fixes a definite amount. Then if you don't lose that amount you have really made money. If you lose that much and no more, the customers have paid it and you are out nothing. This is what we mean when we say, "WE PAY YOUR LOSSES." The customer pays the Own Loss, and we pay your loss, if you have one.

I noticed in a recent issue of *The Saturday Evening Post* an article on a New Profession, that of a "Business Systematizer." We are told these gentlemen earn as high as \$1,000 a day in some cases, and their

business is to tell other people how to run their business; show them where the leaks are, and how to stop them. We are doing the same for the Commercial World to-day, and it is not costing you \$1,000 a day either. It is no evidence of self-conceit, when I say to you that it will pay any one of you to give all the time required to a Credit Insurance Agent when he calls to see you; because whether you take a Bond or not, he has information that will be valuable to you.

Is it not a fact, that if you could do business without *any risk*, that your margin of profits could be smaller? This is demonstrated by the large discounts you are willing to give for cash. You don't give these discounts because you need the money that much, but because you want the bill paid, and the risk eliminated. Now if you carry a Bond that eliminates the risk, it certainly gives you a great advantage over your Competitor, who does not carry a Bond.

Occasionally I find the Credit Man opposed to our system, because he thinks his employer might possibly feel that he can do without a Credit Man when he has our Bond. You might as well argue, that if you have a set of harness, you can do without a horse. We supply the harness, but you must furnish the brains and the power. Our Bond will guide you, and it will guard you, but it cannot do your thinking. It will not detract from your importance, but increase your value and your usefulness, by enabling you to all the better fulfill the very purpose of your work. There is not another set of men in the world who have their judgment guaranteed. We are your best friends.

Credit Insurance will do more to avert a panic in the future, than any one factor in financial circles. The word "panic," you know, means a "senseless scare."

Financial panics are the result of fright and loss of confidence on the part of capitalists and bankers. In addressing the National Association of Bankers a few years ago, the President of the Association said: "You, gentlemen, make the panics," so it is not treason for me to repeat it.

When the banker decides to call his loans, he naturally will call first the loans about which he feels the least safe. If he finds two merchants whose accounts are equally good, one, however, carrying Credit Insurance, and the other not, it is no open question which account he would regard as safest. When you all have Credit Insurance your banker will feel safer, and the probability of a panic will be very remote.

We are told every day by some Credit Man that he knows all about Credit Insurance, and he doesn't want it. This is a positive indication that he not only does *not* know *all* about it, but that he does not know *anything* about it. Usually we find that this man has an idea that he has to submit every order to us, or get our consent to sell every new customer, or some other thing equally foolish.

Another thing, gentlemen, the Credit Man often says, "We know all our customers, so we don't need a Bond." Granting it to be true for the sake of the argument, that you do know your customers, do you know the customers of your customers? No! Then how do you know they will pay their bills? If they don't pay their bills, how can your customer pay his?

But, as a matter of fact, no one knows his customers as he would like to. The man who is dishonest, or intends to deceive you, is the man you will probably lose on, as he may, like Josh Billings' mule, "Be good twelve years to get a chance to kick you."

The customer you *really* know is not the one you will likely lose on, but the one you *think* you know, and don't. One Bondholder told us his

heaviest loss was on his brother-in-law, whom he would have trusted with his whole stock. He thought he knew him, but he did not.

A Credit Insurance Bond is a confidential contract, and should be treated as such by both the company and the insured. This is an invariable rule of the Company, but I find some Bondholders who do not seem to regard it as such, unmindful of the fact that they are injuring themselves when they publish the terms of their Bond. I once went by appointment to write a clothing house, and found they had borrowed a bond from a jewelry house, and wanted me to copy the terms from it; and had I done so the bond would have been an absolute "misfit." To illustrate: A cracker factory would never want more than a 10 per cent. limit, nor would a soap factory, or a pickle factory; while a boot and shoe house might need a 20 per cent. or 25 per cent. limit, and a dry goods house even 30 per cent.

These terms and limits must be left to the agent, and it is his duty to fix them at such figures as would be suitable to your business, and on the basis of correct credit underwriting. He really could be termed an actuary on whom both parties to the contract must rely to establish equitable rates. In some instances it may be thought his rates are a little too high, but you must remember that while you have the experience of one or two houses that you may have been connected with, he has the experience of hundreds, and the rate he names you is the normal rate in your line, taken in connection with the risk involved, your own experience, and what he learns from you of your methods and your customers.

You can easily understand that this being an untried field, with little or no data to work on, the first Bond must have been a very crude affair; and yet as the business grew, and experience was gained, the Bond was changed from time to time, being made more liberal each time, until to-day we are using the 20th form; and if any of you Gentlemen will tell us how to improve that, we will be glad to pay for the information. In fact we are offering \$2,000 in prizes now, for the best essays on Credit Insurance, either for or against it, in the hope of bringing out some new suggestions that will be valuable.

One of our associates here, said to me a few days ago that he tried our Bond five years ago, and it did not suit his business. Neither would the Life and Fire Policies of years ago suit him to-day. I say without fear of successful contradiction, that nothing in the insurance or business world has made such strides in the last five years as Credit Insurance; and if you had a Bond five years ago, it is nothing like our form of to-day.

In conclusion, I shall state, that there are only two kinds of manufacturers or wholesalers who don't need Credit Insurance; first, those who sell their entire output for spot cash, and second, those who sell only to the United States Government. All others should, and eventually will, have it as a matter of course.

"Credit Insurance."

AN ADDRESS DELIVERED MARCH 18, 1903, BEFORE THE CHICAGO CREDIT MEN'S ASSOCIATION BY DORCHESTER MAPES, OF SIMMONS MFG. CO.

Lest my position be misunderstood let me say in advance that in 1893 I delivered an address in support of Credit Insurance, and, while I was as sincere then as now, ten years of experience and thought have changed my views. Show me a man who never changes his opinions and I will show you a man of narrow mind.

I am grateful to the committee that invited me to speak on this subject, because in my attempt to do it justice, I have been brought to a

better understanding of the serious responsibility which rests upon the shoulders of credit men; a responsibility not alone to the concerns they represent, but to the community at large.

It is a safe assertion that in this day and age no practical, well-informed man questions the advisability, nay, the necessity, of insurance as a general proposition.

In theory and in practice the principle of insurance is so well established as to admit of no argument, nevertheless, it is at best but an expedient, and as applied to any particular class of risks the question becomes, then, entirely one of adaptability, with this one proviso, which proviso I put in the form of a query, asking that you mark well the exception: Will individual immunity thus secured tend to increase the general or aggregate loss?

If it be true, as the old saw says, "There can be no loss without some gain," is it not equally true, "There can be no gain without some loss?" and in connection with our subject the gain, if any, would be to the individual and at best temporary, because eventually, by the infallible law of average, it must be paid back to the insurance company, while the loss would be to the community and permanent. This thought presents a dilemma, and the ratio of loss to gain must determine which horn we grasp.

In determining whether or no insurance can be successfully applied to credits, these two questions must be first considered, namely: Is there an indeterminate risk and is it practicable to apply the principle of insurance to an alleviation of that risk and to a lessening or an equalization of the resultant losses?

If these two questions can be settled in the affirmative we have but formed an entering wedge, and if you have ever, like Abraham Lincoln, split rails, or, like your humble servant, chopped fire wood, you surely know that many a rail is spoiled in the splitting and many a stick found too tough and knotty to be worth the labor.

The first question we can answer unhesitatingly, for, undeniably, there is an indeterminate risk in every credit. The second question—as to whether or not insurance principles can be adapted to the ever changing, ever-multiplying, always infinite conditions, is harder to answer—so difficult, in fact, that each must in the end decide for himself. It is this phase of the matter that has been most discussed; I may say the only phase, and I predict that when many of us have made way for younger men, it will still be a mooted question.

The subject has been dealt with too much from the standpoint of technicalities, too little from the broader standpoint of fundamental, underlying principles; we have haggled over terms and conditions as though that were the main issue, whereas I contend to the contrary—but of this later.

Before taking up my own argument I wish briefly to criticize some of the common contentions of the advocates of credit insurance, and first of all I desire to say this (which they may accept as advice or interference as they wish), I have read with unprejudiced mind every treatise on the subject that I could find, and from an argumentative point their common and greatest mistake is that of exaggeration.

I have a letter from an officer of one company which says: "A policy of credit insurance means that the risk of losing money on your debtors by reason of their insolvency ceases at an agreed amount." Now, no policy of credit insurance ever written to this day means that, nor that the risk ceases at an agreed percentage of sales; nor even if the policy holder throws away his own discretion and confines his sales strictly within the limitations of the policy.

Another company says: "They (the losses) may not only absorb the profits but corrode the capital." Possible, I grant, but improbable in the extreme.

One company says, "Its general or moral compulsory adoption, like fire insurance, would materially lessen, if not eventually prevent, those periodical recurrences of financial depression and panics, which the business community so dreads." This statement may be true, and I wish with all my heart that I could believe it, but I do not, and later I will undertake to show that its tendency is in a diametrically opposite direction.

Mr. Geo. B. Pulfer says: "Just think of it; the carrying of credit insurance enables the business man to start the year with the problem of losses through bad debts solved in advance." I must characterize this as an extravagance of speech.

"Why is not credit insurance of greater importance than fire insurance?" This question I shall answer fully a little later.

"Many failures could be averted if credit extended was more in accordance with what customers are entitled to expect based on the showing they can make." I assume that "by the showing they can make" he must mean their ratings, because nothing else is recognized by the policy, and this makes Mr. Pulfer say that many failures could be averted by extending credit based on ratings simply because the ratings bring the risks within the scope of the policy. Please consider this and other like statements in connection with what I shall presently say under the head of trading on the policy.

Mr. Edward H. McCray, of New York, says: "At times of depression, it will have a wholesome effect by maintaining confidence, and in times of activity, it affords a source of confidence and support, and thus sales will be quite appreciably increased."

Again he says, "No well regulated firm takes out the credit indemnity policy with the idea of making losses under it." But he has just told us that in times of activity it affords a source of confidence, and that thus sales will be appreciably increased," which can have no other meaning than that credits will be extended under the policy, which would not be extended without it.

Mr. J. F. Knowles, of Hartford, says: "A merchant feels more secure in giving a credit man authority, cautioning him only to comply strictly with the written rules of the company." If Mr. Knowles believes this, he must also (to be logical) believe that an office boy could perform the duty as well as an experienced credit man.

Again he says: "It is not only a help to the credit giver, but opens up a chance to the honest retail merchant with limited capital to obtain more liberal consideration." If I were to tell you the meaning of this statement it would be a reflection upon your intelligence.

Again he says: "Frequently all information obtainable would not justify me in granting a line of credit except in a limited amount, but the bond enables me to extend that limit with safety;" and in his next paragraph he says, "Criticisms are rife as to whether or not credit insurance will tend to loose credits, but this is governed by initial loss." But he proves that the initial loss really has nothing to do with the case, because he (like most of the others) says that he can and does, notwithstanding the initial loss, sell a customer more than he would if he did not carry the insurance. It appears to me self-evident that Mr. Knowles' habit cheapens credit.

Mr. Morphy himself uses the fire insurance argument, and says: "The fire insurance premiums paid by citizens of New York helped to make good the losses of merchants through the great fire in Chicago."

I think I may safely point out the fact that neither premiums paid by New York merchants nor the premiums paid by the world did as a matter of fact pay the Chicago fire losses; many Chicago firms were crippled or made poor because they did not collect their insurance, and a number of insurance companies were put out of business.

Now, while I do not concede the argument necessary, I think this example that Mr. Morphy has cited bears out to a degree at least the claims of some objectors to credit insurance, namely, that credit insurance could not stand a serious panic, nor do I think that the fact that the American Credit Indemnity Company survived the period of 1893 to 1898 disposes of this argument, because at that time their line of insurance was exceedingly small, and because they themselves claim their policy was then very much less liberal.

Again Mr. Morphy says: "We are your agents to distribute the excess loss made by bad debts, and by excess loss I mean loss in excess of the normal loss ratio." Now, I contend that we have only to read the limitations of a policy and also Mr. Morphy's own explanations with reference to adjustment to find that he does not mean that the company will pay "the loss whatever it is in excess of the normal loss ratio," because the normal loss ratio takes into calculation all losses, and the policy coverage does not. Again Mr. Morphy says: "We limit the possibility of loss absolutely to the percentage of loss agreed upon," which, of course, is again at variance with the letter of the policy.

Mr. E. A. Grant, of the American Credit Indemnity Co., says: "When a credit man says he knows all about credit insurance, and does not want it, it is a positive indication that he not only *does not* know all about it, but that he does not know anything about it." The above assertion is unwarranted arrogance, to say the least, and I shall make myself liable to the same charge by saying—the credit man who advocates credit insurance fails to comprehend his higher responsibilities.

Mr. A. S. Keady says: "It (credit insurance) works for the commercial good of the country; it induces caution, promotes proper conservatism, and helps to reduce losses; it is a stimulus to trade; it is an aid to the substantial business progress of a nation, and it is the only means whereby a merchant can be reimbursed for losses through bad debts." These statements appear in a single paragraph, and as I see things they are self-contradictory.

Another writer says: "By a discriminate seeking of new customers and a liberal enlargement of credit to old customers, who are worthy or at least considered to be so, the assured may legitimately increase his sales by an amount which will yield in profits many times more than the cost of the insurance."

But why multiply the evidence; the writings on the subject abound in just such declarations as I have quoted, all giving proof that credit insurance induces people to extend credit in larger amounts than they otherwise would, and in channels where, without credit insurance, they would not, and I shall be content with two more examples which strike me as particularly interesting.

The writer of prize essay No. 37 has a scheme for trading on the policy all figured out. Speaking of Messrs. B. & Co., who carry insurance, he says: "They feel perfectly safe, and their travelers are instructed to call on 'probably good houses' they had skipped before; the credit lines given their regular customers are increased to the limits covered by their insurance; the collection department is easier with the debtor, and in that way makes firm friends of debtor customers. This all results in materially increasing the sales, and results, let us suppose, in a business of \$120,-

000 instead of \$100,000, with no additional risk or expense outside the cost of insurance.

If they have no excess loss to claim, and have paid \$600 for their insurance, then the policy will show a profit of 20 per cent. on \$20,000, or \$4,000 less the \$600 paid, or \$3,400 net besides the insurance.

On the other hand, if B. & Co. had a bad year, and made the exceptional loss of 5 per cent. above the minimum (own loss) agreed upon, then on \$120,000 sales this would be \$6,000, and even if covered by one of the lower credit classes, say, the 75 per cent. class, the credit company would pay B. & Co. \$4,500, making the loss to be borne by the merchant \$1,500 over the minimum (own loss). To this should be added cost of policy \$600, thus making a total net loss over minimum (own loss) of \$2,100. Against this is the 20 per cent. profit on \$20,000 extra sales, or \$4,000, leaving a dividend from the policy of \$1,900. Consequently, the amount lost by the credit company is \$4,500; B. & Co. receive a profit of \$1,900, and their protection; but where nothing is lost by the insurance company B. & Co. gain \$3,400 besides their protection."

The above speaks for itself, and comment on my part would be superfluous.

Writer of prize essay No. 28 says: "Possibilities for expansion of our business under your bond without increasing our own risk are of paramount consideration. To use the simple illustration made by your solicitor: Where we were heretofore willing to sell an "X-D" or "K-3½" customer, say, a limit of \$300, we can now sell \$600, thus increasing our business 100 per cent, without adding to our own risk in so doing. While we must confess that this does not look like a prudent, or at least a very conservative, thing to do, still your great success (as evidenced by your financial statement) in authorizing exactly this very thing proves conclusively that you must have your tune pitched in the right key, and that you must know your own business. Furthermore, we feel that this is our privilege under our contract, and partially what we pay our premium for." The above is noteworthy as demonstrating not only that users of credit insurance do and will use the policy to the cheapening of credit to an extremely dangerous degree, but also bears out my contention that solicitors for the company do advocate "trading upon the policy," and this one essay in my opinion is alone sufficient to everlastingly condemn the entire proposition.

I am indebted to Mr. W. Britton Roberts, of Portland, Oregon, for this quotation with reference to insurance in general: "The loss apprehended must be so considerable when it does occur as to be worth providing against, and the cost of that provision must be comparatively so small as not to be prohibitive."

Just because its friends are so fond of comparing credit insurance with fire insurance, let us make a comparison along the lines of the foregoing proposition.

It is a part of the so-called fire insurance argument that while people carry fire insurance year after year, rarely having a fire, no one escapes bad debt losses every year of his commercial existence. A true statement of facts, doubtless, but in all sincerity is it a fair comparison? and if comparison is to be made, should it not be made as between the total fire losses, practically all of which are insurable, and that part of bad debt losses which a credit insurance company would under its policy return to the insured? On this basis I am not convinced that there is a great disparity. Quite as many suffer fire losses as suffer insurable bad debt losses.

In a jobbing or manufacturing business property insurable against fire would almost invariably be more than the same concern's outstanding

accounts. The total amount of the former might be wiped out in an hour, whereas a loss on the latter amounting to 10 per cent. (or, say, 2 per cent. of total sales) would be excessive to the extent of improbability, and to determine how much of the latter is insurable we must deduct what does not fall within policy limitations and also the agreed "own loss."

The concern I represent is not the largest institution in the country, nor yet the smallest, and may be used for example. We carry fire insurance of more than \$60,000 on property at single risk; in other words, which might be totally destroyed in a single conflagration, and it is not out of place to say that not a great many years ago our institution was utterly wiped off the face of the earth by fire, and but for fire insurance possibly would not exist to-day.

On the other hand, while our outstanding accounts are approximately \$300,000 on an average, the most that a credit insurance company would pay us is \$20,000, or, perhaps, \$30,000, and that under conditions making it extremely improbable that they would pay us an amount approaching the maximum, even though by a combination of disasters we should lose in some one year 10 or even 20 times the usual or normal loss.

I do not offer this as an argument, but simply wish to show the absurdity of urging that there is the same necessity for credit insurance that there is for fire insurance.

Is it practicable to make a rate (in the sense of premium plus "initial" or "own loss") which will as a matter of fact insure? The company must certainly require that the insured first shoulder not his usual loss, but his usual loss plus a safe margin to provide against a not improbable increase, and they must charge a premium, commensurate with their extreme risk; in other words, they must base their charge upon the possibility of being called upon to pay the limit of the policy, and must fix a minimum fee, for I confidently assume that they could not, for instance, afford to risk \$1,000 for a premium of, say, \$40 or \$60, whereas they might reasonably risk \$10,000 for a premium of \$400 or \$600, because a loss of \$1,000 might not be extremely unusual, whereas a loss approaching \$10,000 would be, I argue, comparatively improbable.

As an economic proposition, can a manufacturer or jobber afford to pay a fee that will perhaps in virtue double his inevitable loss when the apprehended excess loss is so comparatively inconsiderable? They say we should not consider the "own-loss" in connection with the premium, but I argue that it is proper to do so just because to the extent that the own-loss exceeds the normal loss the apprehended insurable loss is reduced thereby, and because the premium is and must be so comparatively large for the same reasons, when considering the subject as a whole, the aggregate premiums must be added to the sum of unavoidable losses.

They tell us that credit insurance will not induce loose credit, and thereby increase losses any more than fire insurance increases fire losses. Fire insurance does increase fire losses, but the law recognizes arson and incendiarism as among the blackest felonies in the category, and fixes the punishment accordingly; whereas if it be—and it is—a crime to defraud a credit insurance company and the community by a loosening of credit, the policy legalizes the act.

Who must stand the brunt of these superinduced losses, who but the men of the old guard—the advance guard—who, while they live, will stand behind the guns in defense of honest credits, honestly made; whose aim is and shall be to make credit what it should be, priceless.

I understand full well that life insurance and fire insurance contemplate an "own-loss," in fact to my mind one chief danger from credit insurance lies in the fact that the "own-loss," which it requires, sinks into

insignificance when compared with the "own-loss" provided for by the others.

In life insurance the insured must surrender his life, and even then, not he, but some other, receives the benefit.

In fire insurance the insured in case of a fire that is at all disastrous must himself stand the loss of profits occasioned by interruption to trade as well as the loss of customers on account of their business having in the meanwhile been diverted to other channels.

Fire insurance by reason of the enormity of the disastrous results of a fire is a practical necessity, especially since as against a fire loss our own precautions avail us little if our neighbor is careless or like Mr. Dooley, "manipulates the oil."

After all, the question of adaptability is one which the insurance companies must solve, because the solution lies in the wording of the contract, and they must decide what losses they can and will guarantee, and what the cost must be, but having solved that question, what then?

Let us admit, for sake of argument, that they come to us with a contract so clear and concise as to admit of but one understanding, yet so comprehensive as to provide for every possible contingency. When they have done this, and have made the terms and limitations such as would give us as individuals immunity from losses in excess of a specific percentage, without restricting us in the use of our personal judgment, without robbing us of our own discretion, then, when they have done this, we must still consider the matter from what I shall call its more important, more serious, point of view.

The subject of Credit Insurance cannot be intelligently discussed without considering independently credit itself, and its susceptibilities, but this is too large a subject to be more than hinted at.

Commercial credits may be classified as normal and abnormal—normal credit based upon actual goods (property) convertible into a medium of exchange and can have no general effect upon supply and demand, hence prices and values—nor can it to my understanding result in overtrading. Abnormal credit is only partially or not at all based upon actual property, hence it is false credit.

All credit is a means of increasing purchasing power, and it follows that abnormal credit produces an abnormal—fictitious purchasing power, hence also a fictitious demand, which will go on unnoticed until the supply, which is the direct result, is discovered to be far in excess of the normal demand—the discovery pricks the bubble and general commercial disaster follows; and in considering the danger of abnormal credit, it must be remembered that in the event of forced liquidation, which it compels when discovered, a greater or less amount of legitimate normal credit is carried down with it to its own level; therefore, it appears clear to my mind that any medium or instrumentality that tends to induce in any degree abnormal credit has in it an element of serious danger.

The operations of abnormal credit provide the materials for a commercial crisis.

Prof. Laughlin, head of the Department of Political Economy of the University of Chicago, says: "Normal Credit may increase indefinitely, but it can never increase dangerously. Abnormal credit, on the contrary, is perilous in any quantity exactly because it is of a wholly different kind," and I may add because the possessor of it is irresponsible.

There is a direct analogy, it seems to me, between abnormal credit and "gift money" or in other words money or property, which the possessor did not work for nor surrender an equivalent for, and the value of which he, therefore, does not know.

I do not claim originality for the statement that "Credit unwisely

dispensed disturbs the entire business and social life of a community," but I do firmly believe it to be a fundamental truth. One writer gives it as his belief that "the giving of credit to people not entitled to it has been and is the cause of more suffering mentally and physically than all the vices and crimes in the world," and while this statement may be, and I believe is, an exaggeration, I contend without fear of successful contradiction that whatever has even the slightest tendency to cheapen credit is a thing to be looked at with distrust—to be dealt with lightly by none, to be accepted at all only by men of sound far-seeing judgment.

To use Prof. Laughlin's words again: "The immediate effect of elation, hopefulness, and prosperity is certain to cause an extension of unsupported or false credit." Now, one of the chief arguments in favor of credit insurance is, unless I mistake the tone of every article I have read on the subject (and I think I have read most of them), that it produces just this effect of "elation, hopefulness, and prosperity."

With reference to "Trading on a policy," so-called, it is not enough that the companies disclaim advocacy of it—it is not enough to say that most men are honest and would naturally try to avoid it. Unscrupulous and short-sighted solicitors do and will use it as an argument, and selfish, unthinking, not to say dishonest, policy holders will make the mistake, and even conscientious policy holders will, if they have faith, be at least more ready to accept a risk, which their unbiased and better judgment would decline.

If the unexpected happens early in the period covered by the policy, will he not at least be inclined to accept business which he might not otherwise accept, knowing that, his "own-loss" being exhausted, the company assumes the risk? Nor do I forget the answer to this question, namely, that by so doing the insured stands in danger of loading up his books with accounts, insurance upon which the company may decline to cover by a renewal of the policy.

They need not tell me that credit insurance does not tend to over-trading and to a cheapening of credit, for I understand human nature too well to be convinced. The penalty is totally inadequate—the punishment does not fit the crime. If proof of the fact were necessary, I need only refer to the eighty-nine prize essays recently published and to practically everything that has been written favorable to the subject. Some of these articles dwell upon the point to a degree that would be laughable, if it were not so dangerous.

There is but one answer to all these statements, which point to trading on the policy or allowing the policy to determine whether a credit should be accepted or not, and that is—if you cannot otherwise satisfy yourself as to the desirability of the risk, then you have no moral right to accept it, simply because, perchance, you find that it is provable against your policy.

It seems to me to be a self-evident truth that, regardless of intent or reason, any expansion based on credit insurance means a cheapening of credit.

They tell us to put our policy in our vault, and think no more about it except to remember to notify the company as each loss occurs, and again other advocates tell us to keep it and its limitations always before us, and to be governed by its said limitations in making our credits.

We are thus given an option as to which of two directly opposite plans we shall follow. Under the first plan, which is to my mind preferable, I predict that at adjustment time we will find that though we may have sustained a net loss considerably larger than usual, we still may not have a claim against the company under its limitations. Now, while I do not argue that a company should or could (for they could not) issue a policy without limitations, still there will be in such a case ground for

disappointment, because the company's general proposition is to insure us against losses in excess of normal loss. The normal loss includes all losses—we have conducted our business as usual—we have lost in excess of the normal yet have not sustained an insurable loss.

If we adopt credit insurance, and attempt to be governed by its limitations, we shall find ourselves seeking to know, not what is our debtor's true basis for credit, but what are his ratings—ratings which we know to be but one man's opinion after all, and subject to every prejudice for or against by the local or traveling reporters, who gather the information upon which the rating is based.

They tell us credit losses cause panics. This clearly is untrue. Is the match the cause of the fire or is it the incendiary who "touches the match?"

Cheap credit is the cause of financial panic always and inevitably, and he who encourages cheap credit "touches the match."

The so-called financial panic is merely and simply the process of returning to a basis of normal credit, which is to say that but for abnormal credit there could be no panic.

As against the statement that losses unnerve a credit man and destroy or warp his judgment, I contend that, on the contrary, his losses act as a stimulus to watchfulness, and if he has not the nerve to hold steady "under fire," it is either because he is not qualified or lacks experience or because, as is too frequently the case, his house does not repose in him the confidence necessary to make him "master of his position."

Normal losses are to a credit man what a safety valve is to a steam boiler, for, mark you, there is confidence and overconfidence; the former produces the power, the latter the explosion.

At the Credit Men's Convention two years ago, I said that I was a member of the Credit Men's Association, because in everything pertaining to credits, credit conditions, or credit man's work, this association stands for progression, and for development, for the greatest good to every honest man, and for just retribution to every dishonest man, and because it has shown itself pre-eminently capable of performing its functions.

Now, therefore, in the hour of success—is it timely to sound a warning—to be on our guard, for, as Prof. Laughlin has told us: "The immediate effect of this elation and hopefulness is certain to cause an extension of unsupported, false credit."

False credit is a menace to the credit system—the credit system is the foundation of commerce, and commerce is the basis of modern progress and civilization. Call you this sentiment or say you this is visionary? Visionary—no. It is as true as fate, as sure as death. Sentiment—yes! And can you not agree with me that there is far too little sentiment in our every-day life; too little sentiment in our business; too little sentiment in our politics, and too little, I fear, in some of our homes?

The advocate of credit insurance considers that he has been benefited when he has increased the volume of his business or perchance recovered a few hundred dollars at the expense of an insurance company. Does he forget or does he not know that he is thereby encouraging an increase of false credit, and does he forget, too, that every commercial crisis costs the world hundreds of human lives, thousands of wrecked fortunes and billions of dollars in wasted values.

Time was when credit men preferred to stand alone—to work out their problems single handed—to look upon their troubles as their own solely, and not as a part of one great whole. Thank God and the men

who conceived, fostered and developed the Credit Men's Association, that day has gone.

When, as now, all business is on the flood-tide of prosperity—shall we loosen the credit stays and resort to subterfuge? I for one say no. Let us, rather, hold fast to those broad fundamentals, which have made this association a possibility and a proud reality. Let us stand and fight for what we know is conducive to the common good, and fight against everything that savors of heresy or treason to the end that when the day is done—

"The night shall be filled with music
And the cares that infest the day
Shall fold their tents like the Arabs
And as silently steal away."

Credit Indemnity—A Few Serious Objections.

Delivered before the Chicago Credit Men's Association, Wednesday evening, March 18, 1903.

BY JOHN C. BOSS, OF THE LIQUID CARBONIC ACID MFG. CO.

I desire first to express my appreciation of the generous manner in which several credit indemnity companies, knowing that I intended to speak against them here to-night, have assisted me in securing information. It may be, as one gentleman expressed it, that they had no fear that I could say anything to seriously harm the cause of credit indemnity. Or, it may be, as another gentleman said, that there is not a credit man in the city of Chicago who is capable of producing a sound argument against credit indemnity. Be that as it may, I thank them for their generous assistance.

I desire next to pay a tribute to the exposition of credit indemnity which has just been delivered by Mr. W. J. Morphy. It was an able argument, and the cause of credit indemnity was splendidly defended. But, gentlemen, the argument to which we have listened was the argument of the advertiser; it was the argument of the promoter; it was the argument of the man whose individual interests were involved in bringing you over to his way of thinking. It was not the clear-cut, incisive, inexorable logic of the true commercial economist.

Against the honesty with which credit indemnity is urged upon you by its promoters I cannot entertain the slightest question, but against the soundness of the principles involved in the proposition they make my convictions are strong, and are founded upon careful thought and thorough investigation.

I am convinced, not only that credit indemnity, as now offered, is counter to the best business practices of the day, but that it is in violation of that high commercial integrity for which the Credit Men's Association stands, that it opens an opportunity for careless and unthinking credit men to cheapen credit, involving their houses in loss and increasing the waste from this source to the business world; that it clears the way for unscrupulous credit men to increase the business of their houses by methods which no upright man could endorse, but which nevertheless are permitted and legalized by the terms of the credit indemnity bond as it is now offered to us.

The fact that business men of high standing have been convinced in favor of credit indemnity is very far from being a conclusive argument in its favor.

Error, ably advocated, will gain converts. Sophistry, clothed in the language of logic, will deceive if it be not analyzed. Men of high intelli-

gence will listen to, and be convinced by, argument which attempts to show them how to make more money, or how to prevent loss; when the same argument put before the same men as an abstract proposition, not affecting their own personal interest, would carry no weight whatever. That is to say, men are likely to be easily swayed in the direction of what they conceive to be, or what by silver tongues they are persuaded is likely, to prove profitable to themselves. The most mistaken cause will meet with a more or less, though perhaps temporary, success, if it be ably generated. Every leader, whether god or charlatan, will secure a certain following, and it not infrequently happens that the charlatan makes the greatest success. I say this not as a reflection on the gentlemen who are interested in credit indemnity, but as an open truth.

The number of converts, I say, does not indicate the strength of the cause, nor is a fallacy of necessity betrayed by a dearth of believers; and credit indemnity, which presents as one of its strongest recommendations the number and loyalty of its patrons, none the less needs a careful and thorough analysis before it can be accepted by the commercial world.

Credit indemnity comes before the business community with a proposition. It says to us, "You have heretofore met with certain losses from unpaid accounts. These losses for the past five or ten years have averaged such and such a sum. Now, we propose that you continue to stand an annual loss equal to that average figure, and we will insure you against all losses in excess of that figure up to a certain amount. For this insurance we will charge you a premium."

This seems to be a fair proposition, and on its face is analogous to other kinds of insurance. Indeed, the credit indemnity companies claim that it does bear this analogy. But I cannot, save in the most unimportant features, see any likeness between fire insurance or life insurance and credit indemnity. The root idea of fire insurance is the imminent danger of a loss which may be total, or so nearly total as to seriously cripple, or perhaps wipe out, an entire business. If it were not possible that a fire could thus destroy, or cripple your business, or, if such a possibility were remote; if, in short, you were not in danger from fire, or suffering more than a temporary inconvenience, or a slight diminution of your assets, to what extent would you believe it necessary to carry fire insurance?

Right here is where credit indemnity discloses its chief weakness. The amount of insurance which you are able to obtain upon a credit indemnity bond would in the last extremity be but a drop in the bucket. Under none, save the rarest and most improbable conditions, could a business house, whose credit department is conservatively conducted, suffer a loss from unpaid accounts of such severity as to seriously impair its capital. I speak, of course, of sound jobbing or manufacturing houses, who have sufficient capital for the proper conduct of their business. Let each and every credit man here, from the oldest to the youngest, recall year by year the losses his house has suffered from bad accounts. Is there one of you who can conscientiously say that your house to-day would be sounder, that your business would be safer, or that your aggregate losses from bad accounts would have been in any amount decreased if you had carried a credit indemnity bond during the entire life of your business? Remember, in making this calculation that before you estimate the amount you would have received from the credit indemnity company, you must add year by year the amount of the premium which you would have paid that company. Bear in mind that in the good years when you were successful in reducing your losses, the amount of premium paid by you would go far toward wiping out the benefit of that reduction.

I would ask you, who are carrying bonds of credit indemnity, what it is you are investing in? For what are you paying the premium? Your answer unquestionably is, to protect yourselves from loss. To what loss are you subject that protection of this character is needed? Unquestionably, as I have already stated, not to a total loss or destruction of your business, for statistics show that houses which are reasonably sound financially, and which support a well-managed credit department, are not wiped out or brought to insolvency, or even to serious distress through losses from bad accounts.

The statistics compiled by the Bradstreet Company for the year 1901 show the total number of failures from all causes to be 10,648. Out of this number the total number of failures caused by the *unwise* granting of credits was 376. In other words, the percentage of failures due to the *unwise* granting of credits was $3\frac{6}{10}$ per cent, and when you reflect that this $3\frac{6}{10}$ per cent. includes an overwhelmingly large proportion of retailers, and when you again reflect how insignificant in number are the failures from this cause among the class of mercantile houses which credit indemnity seeks to interest, you will discover the very slight importance of this most unnecessary addition to the tax already laid upon commercial activity.

The "own loss" which you are obliged to stand is arrived at by averaging your losses during the preceding five years, or ten years, as the case may be. This loss, which is the same as the loss you have heretofore suffered, must be borne by you before any liability attaches to the credit indemnity company. And to this loss you must add the amount of the premium paid by you to the indemnity company. Just what this means let me illustrate by citing from the actual figures of a policy proposed to be written by one of the indemnity companies. This policy limited the liability of the indemnity company to \$20,000. The own loss of the insured was \$5,000 based upon total sales of \$1,500,000, the amount of premium called for by the policy for one year was \$1,200. Therefore, the company to whom this policy was offered, although its own experience showed that during a period of more than five years its actual losses from unpaid accounts had averaged but \$5,000, was called upon to increase that yearly loss from \$5,000 to \$6,200, an increase of $62\frac{1}{2}$ per cent.

If your losses from bad accounts during the past five years or more have averaged \$5,000 per year, and if, during the coming five years your business is conducted upon the same basis—if your credits are administered with the same conservatism—if your collections are followed with the same vigilance—then tell me, by what law of probability are you justified in deliberately increasing your annual probability of loss to \$6,200 per year instead of \$5,000?

Suppose, during the five years which you have taken as a basis your losses for two years have been \$3,800 each year, for two years \$6,200 each year, and for one year \$5,000—this makes the average of \$5,000 per year.

Suppose you take out credit insurance at a cost of \$1,200 per year for the next five years. We will assume that in the extension of credit you continue to be as conservative as before, and in no wise influenced by the bond. If during these five years your losses amount each year to \$5,000, then every dollar of your credit insurance will be added to your loss.

If your losses repeat, as in the first five years, then during three of the years you will lose your premium money, of \$1,200 per year, and the other two years you will come out even, trading dollars with the credit indemnity company.

If during each and every year of the second series of five years you

lose \$6,200, which was the maximum loss during the initial period, then, although there has been an actual increase of \$6,000 in your total losses from bad accounts, yet you have not received one cent of benefit from your credit indemnity. The credit indemnity has, it is true, paid you \$6,000, but it is the same \$6,000 which you paid them for "protection."

Take another set of figures. Suppose during the first two years of your credit indemnity experience you are fortunate, and lose but \$3,800 each year. The third year is a little worse, and you lose \$5,000; the fourth year you climb to \$6,200, and the fifth year, in an effort to recoup, you go clean over the fence with a loss of \$9,800. Here's where you say, "What a good boy am I," and you think you have "stuck in your thumb and pulled out a plum" from the benevolent and protective pie of the credit indemnity company. But have you? Gentlemen, you will have received back from the credit indemnity company dollar for dollar what you paid in.

Once more, suppose the loss for the first three years of your credit indemnity experience to be \$5,000, the fourth year \$6,200, and the fifth year \$11,600—a total for the five years of \$32,800, or \$7,800 more than your total loss for the first five years. Now, you surely are going to make something clear. No? Why not? Because we have up to this time entirely overlooked the fact that the premium money would have been worth something to you during the time the credit indemnity company so kindly held it. What is your cash worth? If you have a good, live growing business, it should be worth 10 per cent. a year. Therefore, on the basis of our last figures, you would be out the use of \$1,200 for a total of 15 years; so that, in addition to returning the cash actually paid in by you, if you are to come out even, the credit indemnity company should pay you the value of the money for the period you were out its use, which would be equal to \$1,200 for 15 years, at 10 per cent., without compounding, or \$1,800.

Remember that in this last calculation you have not gone below your normal loss any one year; you have equaled normal loss for three years; you have exceeded normal loss by \$1,200 one year, and you have more than doubled your loss for one year. This, gentlemen, is what you must do before you can secure the slightest real protection from your credit indemnity policy.

Suppose once more, and for the last time, that your losses started right in with a jump at \$7,400 per year. How long do you suppose it would be before the credit indemnity company would raise your premium? I think about the beginning of the third year you'd feel a gentle hand upon your shoulder, and a persuasive voice would say that since your losses were showing an increase of 50 per cent. your tax would be raised to \$1,800 instead of \$1,200, and your own loss would be increased.

Now, gentlemen, the figures I base these calculations on are actually taken from tentative bonds offered by two companies, both companies offering identical figures, except that one premium is \$1,200 and the other \$1,400 per year. I have charitably selected the lower figure.

Moreover, I have wholly omitted the additional "own loss" you would certainly have to bear from such accounts as are not covered or are only partially covered by the bond. And I have said nothing about the work and expense of furnishing proper data and making necessary reports to the indemnity company.

Properly managed houses are already carrying credit insurance when they support a well-organized credit department, when they subscribe for the service of the mercantile agencies, when they spend money for attorneys' reports, when they compile trade information, when they record and

tabulate their own experience, when they properly—not arbitrarily—limit individual accounts, when payment is requested at maturity dates, and when delinquent accounts are followed systematically, persistently, vigorously, and above all, intelligently. If all this is done, what need to increase your annual loss ratio by 22½ per cent., or 20 per cent., or even by 1 per cent? Why should you assume that your losses will average higher in proportion to your sales during the next ten years than they have in the last ten years? Why contribute to help pay the losses of those who put less expense than you, less time and brains, into helping themselves? Will credit indemnity enable you to decrease your expense or your activity in any of these directions? Then credit indemnity will cause you to take a step backward to looser credit methods. If you can by the use of credit indemnity relax your vigilance without increasing your individual loss, then the increased loss will fall elsewhere, and the commercial economy of the world at large will suffer.

"But," the credit indemnity defenders cry, with their oft-repeated error—as if reiteration would strengthen their mistaken statement—"credit indemnity does not cause credit men to relax their vigilance. Credit indemnity does not foster looser credit methods."

Gentlemen, I do not know upon what credit indemnity companies base this statement, but I do know what human nature is, and if credit indemnity indemnifies, if it is what it claims to be—collateral on open accounts—if it does in reality pay your losses, then there may be credit men so single-minded, so strong in their adherence to principle for principle's sake, that they would never be influenced by the bond to accept an attractive order which without the bond they would decline; but I fear, gentlemen, that such men are few, and that in all cases where you and I now hesitate, the credit indemnity bond would cast the deciding vote.

What is it that sways you one way or the other in accepting or declining orders? It is the character of the risk. Suppose you receive an order amounting to \$500. You examine your credit information and decide that the dealer is not worthy even \$50 of credit. You refuse the business. Now, if some one of undoubted standing offers to guarantee the payment of the bill, will you still refuse to fill the order? Or, suppose you have a credit indemnity bond, and in spite of the dealer's bad standing he is so rated as to be covered by your bond. This may easily happen. Tell me what you would do in that case? Not what you would do theoretically on the lofty ground of moral duty, but what you would do in real life, as a question of good business. *Would you turn the order down?*

I do not defend such action upon the ground of good morals; but if you are not to be guided by the bond in the acceptance of orders, then what, in the name of common sense, do the limitations in the bond mean? Do they formulate one set of rules for your guidance and expect you to be governed by another? And for what are you paying that enormous premium—a premium which amounts of 6 per cent. of the total amount of the insurance—to 22½ per cent. of what your experience has shown to be your normal loss?

The arguments in favor of credit indemnity while stoutly maintaining that "there is nothing in credit indemnity to encourage loose practice in business," teem with admissions to the contrary.

Listen:

"The use of the policy will unquestionably produce a very material increase in business."

And again—

"One's trade can be increased under this collateral security."

How, if not by the acceptance of orders which would otherwise be deemed excessive risks?

Again, a defender says—

"This insurance of credits will increase the sales by enabling the credit man to grant a larger line of credit to this or that merchant to whom, without this protection, he would not be inclined to grant this increase."

What a candid and open confession!

And again—

"The only limitations required by the company are that those to whom credit is extended shall have a rating by a leading commercial agency."

What sublime and childlike faith! Would any sane credit men grant credits on this basis?

Again—

"A house is able, under this protection, to extend a larger line of credit to many customers than it would otherwise feel willing to do, and this alone should appeal to every merchant."

This is fine logic, but it is infernally poor ethics.

Again—

"The possibilities for the expansion of our business, under your bond, without increasing our own risk, are of paramount consideration."

How ingeniously they acknowledge the truth of the charge.

Again—

"The bond tells your credit man to whom he can safely extend credits. Experience warrants the company in betting you that a dealer having certain specified ratings in R. G. Dun's book of ratings will pay you for the goods you sell him."

This man hits the nail on the head. He dignifies credit indemnity as a sort of gambling transaction.

Again—

"The sales of a mercantile house may be largely increased with safety under the provisions of a policy issued by this company."

These quotations are taken from articles published by the credit indemnity companies in favor of their plan. Out of their own mouths they are condemned.

A recent convert to credit indemnity told me he was selling a large number of customers on 60 days' time whom he formerly sold on 30 days' time.

Another said to me that he now filled all initial orders that fell within the limits of the bond, without waiting for special reports.

These are the straws which show which way the wind blows. The opportunity for expansion by looser credit methods is there, and I am not so sanguine as to believe that we credit men have yet reached that high plane of altruism from which we can, as a class, disregard such a palpable opportunity for increasing business at a minimum of risk.

Tell me what your losses have been during the past ten years. Average them. Add to that the annual premium the credit indemnity people charge you. Estimate the probabilities of additional loss, over and above that total figure. Remember that you are just as likely to go under your minimum as you are to go over your maximum, and that the probability of variance between your total loss for one ten-year period and your total loss for another ten-year period is too inconsiderable to be a worthy subject for insurance. You will see from this how little risk the credit indemnity company is carrying, and that the amount of premium you are paying is utterly and ridiculously disproportioned to your actual probability of loss.

This is true if your house has a true regard for honesty, uprightness and conservatism. It is not true if you are careless, if you take advantage of your insurance protection to enlarge your business, if whether in

the belief that you are legitimately within the privileges given you by the bond, or whether with intentional fraud you accept orders because of your credit indemnity that you would not accept without it. I tell you, gentlemen, that the man who permits himself to be swayed a single hair's breadth by his bond in the granting of credits, is, whether he knows it or not, guilty of dishonesty. I do not say that among the houses whose credits are handled with conservatism and good judgment there may not now and then be a time when credit indemnity would pay a fair return. But in the other class who would reap the benefit, the careless, the foolish, those who lack in judgment, those who seek to defraud.

The Credit Men's Association stands for better things than this. It stands for the purification of modern mercantile methods, for the highest ideals of commercial honor, for the discouragement of loose credits, for the improvement of all conditions which make for good business.

Credit Insurance.

W. BRITTON ROBERTS, WITH LANG & CO., PORTLAND, OREGON.

That a Credit Insurance Company should offer a prize of five hundred dollars for the best written article in endorsement of its system of Credit Insurance, and only two hundred dollars, for the most able argument submitted against it, might at the first glance seem partial toward the writers in their favor, but as one gradually realizes how difficult a task it must be for their advocates to offer any reasons in its support, other than those that have so often been in evidence, heralded by their champions and brilliant, energetic officers and employees, it is made plain that they have adjusted the premium list on at least a fairly equitable basis. Certainly on the negative less strain of brain and vivid imagination is called for, and it is due largely to that fact that I presume to offer these few lines with the last-named contestants. In contemplating the work of an institution of this character, we must not only take into consideration the immediate possible benefits that are promised, but we should review it from a broader standpoint, from one that has to do with the possible results of its encouragement as the years roll by, lest the benefits of the present moment be more than offset by the price paid at some future day. An eminent authority writing on the subject of insurance, which in its many phases is of such vital interest to humanity; recognizing its great importance and the need of its being rightly understood and used, among other things relative to the conditions which are necessary for its ultimate success, aside from a good administration, says: "The loss apprehended must be so considerable when it does occur, as to be worth providing against, and the cost of that provision must be comparatively so small as not to be prohibitive." The truth of these words has since been exemplified in more than one instance along insurance lines, and credit insurance may yet reiterate it, for it will be noted that the condition justifying success in insurance must not only be a considerable loss to be apprehended, but that fact must be taken in connection with a policy whose cost should not be prohibitive. Illustrative of this, among other attempts, might be mentioned the Educational Endowment Companies and the Live Stock Insurance Companies, which flourish for a day, only to languish and die. Not that the protection, itself, did not appeal to the insuring public, but because the loss apprehended was not considerable enough to justify the cost of providing against it; and the same question, no matter how desirable Credit Insurance may be, must be answered to the satisfaction of the insuring public. Does the loss to be apprehended justify the cost as fixed by this policy of the Credit Indemnity Company?

Is the premium a reasonable one? On what is it based? At the birth of life insurance, early in the seventeenth century, the tables adopted were such that the insured whose ages were limited to from twelve to fifty-five years, carried their insurance at exactly the same expense. The young, healthy and strong paying for those whose hold on life had been weakened by the storms of many winters. Viewed in the light of the twentieth century; compared with tables on which insurance is written to-day by responsible companies it seems incredible that such a policy could have found support and yet is not that policy analogous with a Credit Indemnity Bond that makes your rate based on the privilege of extending the same proportion of credit to a buyer having a rating of J-3, two to three thousand dollars, as one having a rating of AAA1, representing a capital of a million dollars and over, when the statistics of financial death, taken from the tables prepared by "Bradstreets" are as follows: Total number of failures in the United States and Canada for 1898, 13,085, of which number there were 11,888 who had a capital rating of \$5,000 and less, and two who had a rating of one million. In 1899 there were total failures of 10,949, of whom 10,234 had a rating of \$500 and less, and one a rating of a million and over. In 1900 the total failures were 11,294, and 10,959 had a capital rating of less than \$5,000 and just one had a rating of a million and over. Does it not seem as illogical to fix a common percentage of credit in the face of these figures, as it does to write a policy with the same premium on a child of twelve and the grandfather of fifty-five? Are not those who confine themselves to a safe conservative policy paying the premium of those who sell to the weak? Will not the financier who expects to do a careful conservative business, and place his money to the best advantage, consider whether in a term of twenty years \$600 a year, invested in a government bond will not result in better returns than a ten thousand dollar policy in a Credit Indemnity Company? Again we note that this authority says that the loss apprehended must be considerable, when it does occur, to be worth providing against. The loss in the case of Life Insurance is so great that advisability to provide against it, on the present basis of insurance needs no argument; but fire insurance, essential as it is under ordinary circumstances, offers debatable ground when the expense that may even now enter into it shall be great; and to urge Credit Indemnity on equal grounds, (as even fire insurance is not tenable) the analogy is too remote to be taken into serious consideration. The property protected by fire insurance, as a rule, is under one roof. One might pillow his head at night a millionaire, and in the morning tie the cravat of a pauper by failure to protect himself by insurance purchasable at a cost of one per cent. No sympathy would be due in his distress, owing to the fact that the cost in proportion to the loss to be apprehended, demanded the protection of insurance. But let us suppose that his stock of goods had been distributed among two hundred well-selected buildings, in two hundred different cities, and that the rate of his insurance was from \$40 to \$60 per thousand, then the propriety of his carrying insurance must at least be considered as debatable. And yet the same merchant, with his goods trusted out among two thousand carefully selected risks, is asked to pay that rate for a bond in the Indemnity Company. But even aside from the question of cost, it is doubtful whether it is good public policy to encourage an institution, the operation of which offers an apology for the extending of credit to financially weak and irresponsible people, by throwing around the creditor a protection against losses which it is able to do out of profits derived on risks written on the strong. A large proportion of the human race were intended for economical purposes, and by nature for "hewers of wood and drawers of water." To offer such as these an excuse to drop the work for which they are fitted, and to

enter the already over-crowded field of small shop-keepers, is a mistake. Their competition is most to be dreaded by the financially responsible. Incapable of doing business at a profit to themselves, and with nothing at stake, they introduce methods and prices that result in loss to all concerned. Trade is diverted from its natural channels. By the multiplicity of dealers, the volume of business transacted by each is reduced, and in reducing it, the cost of doing business is increased, and as a natural result, the consumer is called upon to pay an advanced price for his goods. It must be apparent to the most superficial searcher after truth, that the cost of Credit Insurance, even under the "Progressive Policy," is too great in view of the loss to be apprehended, in a business where a conservative extending of credit is kept in force, and the encouragement given by this Company to those of inadequate capital to engage in trade, is pernicious in its effect on the community at large, and should meet therefore with the disapproval of those who have at heart the best interest of those to whom heretofore they have looked for that patronage which has resulted in prosperity to both.

Benefits of the Amendatory Bankruptcy Law.

ADDRESS BY HORACE K. TENNEY, CHICAGO, BEFORE THE CHICAGO CREDIT MEN'S ASSOCIATION.

It is as to some of the changes, and the result of some of the changes of the new law, which went into effect in February, that I have been asked to address you, and that obliges me, in doing so, to point out some of the abuses which arose under the old law, in order that you may see how much better off we are with the new amendments.

To begin with, there are quite a number of changes which are of no interest to you. I think there is nothing in which a credit man takes so little interest as the method by which the court arrives at a solution, but there are many which are of importance and which, I trust, will be of value to you in working out the problems which come before you in your offices.

In the first place there are created some new causes of bankruptcy. You know that an act of bankruptcy is something which gives the bankruptcy court the right to take charge of the debtor's affairs; something that he is forbidden to do, and when he does it it brings him within the pale of the law, and gives to the federal courts the right to take possession of his property and set aside all attempts on his part to distribute his estate unequally and assures an equal distribution of it between his creditors.

Under the old law there were a number of things which the debtor could do which were not acts of bankruptcy and by which he could evade the real intent and purpose of this law. It was found that a debtor by consenting, in the State courts, to the appointment of a receiver of his property did not do that which in the language of the act was classed as an act of bankruptcy, giving to the federal court the right to take charge of his property, and yet his property was in the hands of the State court, distributed and held—distributed through the medium of a friendly receiver, just as it had been before the bankruptcy law went into effect. This has been changed so that now when a debtor allows his property to go into the hands of a receiver of the State court, or under any form of State insolvent law, it is an act of bankruptcy, authorizing the federal court to take charge of his affairs.

Then there are added a number of objections and grounds of objection to the discharge of debtors, and that is of a great deal of concern to

all of us. Under the old law, as it was passed in 1898 there were only two grounds upon which a debtor could be denied his discharge, one that he had committed an offense punishable by imprisonment under the bankruptcy act, the other that he had been guilty of a crime or crimes which were designated in the bankruptcy act, and it was only those grounds that could be interposed against his discharge, and as we have found in practice, and which might be regarded as insignificant in other practice, they all referred to the conduct of the bankrupt after he had become a bankrupt. It left untouched that great class of frauds which he could perpetrate upon his creditors before he got into bankruptcy, failed to discriminate between fraud and crime, and left the fraudulent debtor in the same situation as the honest debtor, giving to the creditors whom he had defrauded, no right to oppose his discharge, although he had committed fraud, but unless this fraud was committed before he became a bankrupt, then there was no ground. There have been cases of successful opposition to a bankrupt's discharge because of the fraudulent destruction of accounts, or the failure to keep books of account in contemplation of bankruptcy.

Those were the two grounds for opposition to his discharge. Now this new law adds one ground for objecting to discharge, which seems to me will appeal to you at once. I think you will be surprised that it was not included in the former law when it was passed. It is the making of a false statement for procuring credit, which is now a ground for preventing a discharge. You all know how weak and impotent your position was with respect to false statements, how weak they had been as a real means of securing to you any advantage when your debtor went into bankruptcy and confessed to the falsity of the statement upon which he got you to ship him goods. Now that is changed, and the debtor who thus defrauds his creditors, who thus causes them to be his creditors by perpetrating upon them, what is, in effect, little short of larceny, does not get the benefit of the bankruptcy law, nor secure a discharge from those whom he defrauded. Thus under the old law the making of a fraudulent conveyance (and you all have had experience enough to know just what is included in the words, "fraudulent conveyance")—had the effect of putting a man into bankruptcy. The law is somewhat illogical in this respect, because while the making of these fraudulent conveyances has the effect of putting him into bankruptcy, it also will help him to get a discharge, and thus the reason for putting him into bankruptcy secured him all the benefits of the bankruptcy law. That has been changed and now the making of a fraudulent conveyance is not only a reason for putting a man into bankruptcy, but it is a reason for denying him the benefit of the bankruptcy law, and giving to his creditors alone the benefits thereof.

Under the law as passed there was also no limitation of the right of a man to go into bankruptcy. He could go into bankruptcy and get discharged from his debts, and he could go in again as long as he could get credit from gullible or deceived credit men, to the extent of \$1,000, and get a discharge from his debts as fast as he could contract them. Now he is limited to six years and cannot get the benefit of the bankruptcy law except once in six years. Then there is the refusal to obey the order of the court and the refusal to answer questions of the court. It requires the utmost frankness in the disclosure of his assets and the utmost effort on his part to aid his creditors in discovering his assets and properly administer them for the benefit of all.

Then there is a change in the character of the debts which are discharged, somewhat technical in its character and not a matter which, I think, is of sufficient practical importance to you gentlemen, to dwell upon.

There is also a change which affects more particularly the creditor in his relation to other creditors and in his relation to the bankrupt estate than does this question of the discharge of a debtor. I have stated that one of the objects of any ideal bankrupt law, is the absolute equality and distribution of the debtor's estate among creditors and to accomplish that—to make it really effective the right of preference in every form should be abolished. To do that it was necessary to do something more than to say that a man right at the time of his failure could not prefer one credit over another, because if he was allowed to do it just before his failure the effect of the statute would be nullified and we would have the same situation as before. So the former law provided that there should be a period of four months before he went into bankruptcy, when the right on his part to prefer creditors should be subject to review and when a preference given to any creditor which was considered as having a string to it, the other end of the string was put into the hands of the bankruptcy court, so that any preferences made within four months prior to the bankruptcy, could be set aside by proceeding before the trustee. The law went a little further than that. It not only aimed to destroy the right of a creditor (knowing his debtor was insolvent), to get ahead of other creditors, but it took away from him what amounted to the right to collect his debt by fixing a day when his debtor was in fact insolvent, even though the creditor when he sent the goods had no idea that his debtor was insolvent, and here you see that the law touched upon a somewhat delicate ground—in fact upon the right of free contract apparently. It touched upon the right of a man to pay his debts in the ordinary course of business, and touched upon what seemed to be a still more sacred right, to accept from him on the day of payment, what was justly due him, although unsuspecting of his debtor's insolvency. On this part of the law, as it was construed by the Supreme Court, there has been worked out a result which in many instances produced simply a grotesque injustice. It was held that the debtor had no right to pay any body within four months of his bankruptcy; that no one had a right to receive money from him within that time, and that any creditor who would within four months, without knowing, or having reason to suspect, that his debtor was insolvent, accept payment from him on a debt due, could not, if he had another debt against the estate, prove it without returning the money which had been paid him and which the law treated as a preference.

I have recently in my practice had two cases come under my observation which illustrated to what extent and to what injustice a law could go, one of them affecting the relation of a bank with its depositors. In one case the concern had a large business and unfortunately for the bank his concern had for customers, customers of the bank and the concern was issuing obligations and through its customers was having them discounted. And being customers of the bank the bank was loaning money to the bankrupt upon his own paper, he being apparently a valuable customer, and it was also taking his paper from other customers who had received it from the bankrupt and thus it was the owner of paper upon which it had its customers' endorsement, and the owner of paper which it had received from the bankrupt. The creditor on both these classes of paper, when these notes became due, by robbing Peter to pay Paul, got money somewhere to pay the notes that the bank held—both classes of notes, which notes had been discounted with the bank by the bankrupt and notes which other people had discounted, notes of his, with this bank, and then when the time of failure came and the bank attempted to prove its claim, it was met with the objection that it had got all of this money which had been paid upon notes which he had given to other creditors,

and which had been discounted with the bank, and it has also received payment upon many notes which it had discounted for the bankrupt, and in order to prove its claim within the decision of the Supreme Court, it must return all of the money, amounting as it happened to a much larger sum than the total of the claim which the bankrupt owed at the time of the failure. It is still undecided whether the bank will have to pay that money, but it appears to be a logical result of the decisions of the Supreme Court in the Carson, Pirie, Scott case that the law will compel it to do so, and the law would be grotesque it seems to me.

In another case, a man who had received a preference in this way, without notice of the debtor's insolvency, was compelled to return it and prove the rest of his claim to get a dividend upon it. And there is another provision of the law, that if a man has a preference and has afterwards given further credit to the debtor, he may set off what the new credit is against any preference which he has received and prove his claim for the balance; but the law says that after getting the preference shall give credit and doesn't say anything about his giving additional credit and then getting payment immediately after, and so in some of the instances which have come under my notice there have been cases where within the four months' period, a creditor has given to the debtor much more additional credit than the preference which he received, and yet by this construction of the law he is not allowed to prove his claim without returning all of the preference which he received. This result is changed in the amendment which was called for lately by the commercial class when this construction of the law was announced by the Supreme Court, and now a creditor may safely deal with his debtor when he does not know he is insolvent, and cannot be compelled to return any money that he has received without knowledge that his debtor was about to fail and thereby secure a preference from creditors of some other class.

There has been a change in one other respect, which I think is the only one of any interest to you. On the question of the compensation of trustee. This law when it was passed, I suppose was believed, perhaps not by credit men in general, but by the public in general to be, a self-oiled machine, that would collect debts of itself, and not only that, but without expense, so that those who got up the law, and had this idea in mind, sought to make its enforcement as cheap as possible and so the compensation of the trustee was based upon the amount he distributed to creditors. Well, now you know what it means to take a bankrupt's estate which often has 50 per cent. taken off its value by the mere fact of bankruptcy, and turn it into money and then distribute that money among creditors, and before you distribute it go through a contest with special claimants—the litigation which always ensues over the distribution of any bankrupt estate. You know that all of that money which is realized from the assets of the estate is not distributed to the creditors of the estate, and that therefore if the compensation of the trustee is based upon the amount of dividends to the creditors, it makes the trustee stand by all of the contest and expenses which must come out of the estate before there is a distribution at all, and so it often made it true that the more work a trustee had to do the smaller was his compensation. There has been a change in that respect in the law wherein the percentage of the trustee is a per cent. on the amount collected whether he distributes to the creditors or not. Those who appreciate the advantage of having a good man in the distribution of an estate will be surprised when I tell you that it figures out that the compensation of a trustee who converts an estate into \$10,000 in money, is \$260. I have wondered whether those who arranged this scale of rates had ever had very much experience in the conversion of insolvent estates or had very much appreciation of the advantage it is

to an estate to have a good man, a man who is familiar with the handling of stocks of merchandise and the collection of debts, and I have wondered whether they thought that a good man, competent to do that sort of work could really be secured to do as large a job as is represented in the collection of \$10,000 of money, for \$260, and it has seemed to me that while it is a most desirable thing, particularly from the standpoint of a credit man, if not from the standpoint of the attorney for the trustee, to have the distribution of an estate short, sharp and decisive, economical to the last degree—it is better and to the interest of creditors to leave the question of compensation to be decided by the nature of the estate and the value, in reality, of the services that were required to convert the estate, instead of trying to make that sort of a schedule of prices, which will in the end only procure the services of a class of men who are dear at any price.

These are all the substantial changes in the bankruptcy law which the recent amendments have made—these are the principal ones which I thought would be of interest to you. The other questions which you will sometime be interested in, which perhaps you have been interested in, whether in the end the bankruptcy law is a better means of converting an insolvent estate than the old method with all its evils, is still one which is unsettled. It cannot be settled by the enforcement of the bankruptcy law for a few years, but whatever evils there are under the administration of the law, whatever failure there is to make large dividends, which creditors seem to feel they should receive without any effort whatever, it surely is true that it has done one thing, and that is to place upon a rather more solid foundation one of the elements that a credit man takes into consideration in giving credit to customers, and that is the knowledge that other people cannot get ahead of him in the distribution of the assets, and, while he cannot get ahead of other people, he is free from what has always been a bad credit system, the ability of the debtor, at a distance from those who have trusted him, at the hour when financial trouble came, to handle his assets as it suited his own interest, and convey them away to creditors whose claims were in such shape that they were prepared to prove some sort of a preference, making it a serious matter for the credit man to get anything at all.

LOCAL ASSOCIATION NEWS.

The Chicago Credit Men's Association.

The regular monthly meeting was held on Wednesday evening, March 18th, at the Auditorium Hotel. President Henry T. Smith presided.

The evening was devoted to a discussion of Credit Insurance. Mr. W. J. Morphy, of the American Credit Indemnity Company, speaking in favor, and Messrs. Dorchester Mapes and John C. Boss in opposition. Both of the latter addresses are published elsewhere in this issue. Mr. Morphy spoke without notes, and we regret not having a report of his speech. The attendance was large, 150 members being present.

Cleveland Credit Men's Association.

The Cleveland Credit Men's Association held an interesting meeting on Wednesday evening, March 11, in the library of the Chamber of Commerce.

The attendance was good, and a healthy interest was manifested in the program which consisted in part of an address by Mr. W. H. Marshall, of Strong, Cobb & Co.

Mr. Marshall suggested that his subject might be called "Things, and Things in General." The address was made up of anecdotes and general observations relating to the credit man and his work under different circumstances, and was listened to with interest.

Harold Remington, Esq., the local Referee in Bankruptcy, was present upon invitation, and his address upon bankruptcy matters was much appreciated.

He congratulated the association that in his line "business" was dull. Mr. Remington suggested the advisability of creditors getting together early when it was learned that a debtor was doing a failing business, in order that the elements of uncertainty might be eliminated as far as possible, and that if a loss was inevitable, that it be taken by the creditors at once before the conditions got worse, and the loss to be borne greater.

He insisted that when a merchant realized in his own mind that he was not succeeding, that his business was on a failing basis, that his methods should be at once corrected, and if he still found himself running behind, that if he consulted his own happiness and the regard of his fellows, he should immediately call his creditors together and go into liquidation, in order that the loss might be reduced to a minimum.

Practices like these, it was agreed, were unusual; the creditor who learns of a failing condition on the part of one of his debtors, instead of being willing to bring other creditors into consultation and to take a small loss *now* and close the account, prefers rather to try and "get out," thus leaving a greater loss for some one else.

And the dealer, *even* after he learns that he is hopelessly behind, instead of facing what might be but a modest embarrassment, goes on care-worn and nervous getting in deeper and deeper, cherishing the vain hope that somehow, in some way, he might yet be able to "pull out."

A condition and feeling among the trade, which would have a tendency to head off these slow failures in the way outlined, it was averred would be almost ideal, and that it was a part of the business of the fair-minded credit man to use his energies and influence to bring it about.

The entire address was full of interest and benefit for the listeners.

The committee recently appointed to look into the advisability of establishing a Collection and Reporting Bureau in the Association made a report to the effect that they had been in correspondence with some of the other associations who were already interested in this direction, and that the encouragement received seemed to justify the Association in going into the proposition further.

The committee was therefore continued with additional powers, and authorized to report again, with a "working model" of what they would recommend, at the April meeting.

Detroit Credit Men's Association.

The regular monthly meeting of the Detroit Credit Men's Association was held Thursday evening, March 19, at the Fellowcraft Club, with about 45 members present.

The meeting was called to order by President Treble, who made a few introductory remarks.

Mr. John Johnson, Cashier of the Peninsular Savings Bank, and Treasurer of the Association, then read a very interesting paper on "Questions of the Hour," which was full of facts and figures bearing upon the present prosperity and its continuance.

Mr. Walter G. Seely, of the Detroit Stove Works, was introduced to speak upon "Credit Making as a Profession, and why every Credit Man in Detroit should belong to the Association." He spoke without manu-

script, and sustained his reputation as a witty and convincing speaker. He proved conclusively that it was to the advantage of all credit men to belong to the association.

Mr. Geo. B. Pulfer, Chairman of the Legislative Committee, reported progress in regard to the law regulating sales of stock in bulk.

Mr. M. Martin Kallman, of Chicago, spoke of the "Relation of Credit Men to Business Methods." Mr. Kallman is a well-known expert in business methods, and read a most valuable paper upon his subject, which is published elsewhere in this number.

The invitation of the New York Credit Men's Association to the members to attend the banquet to be given by that association on March 26 to Senator Hoar and others, was read and commended to the attention of any member who might be in New York at that time.

Mr. Wm. Lerchen sang most acceptably several times during the evening. The meeting was of the nature of a smoker and was thoroughly enjoyed by all present. After a rising vote of thanks to the speakers and Mr. Lerchen the meeting adjourned.

New York Credit Men's Association.

One of the largest, most representative and elaborate banquets ever given by a credit men's association took place on Thursday evening, March 26th, at the Arkwright Club, New York.

The banquet was tendered by the New York Credit Men's Association to the men who had been prominent in the labors of the bankruptcy legislation.

President Meek, of the New York Association, presided, and with him at the guests' table sat Hon. George W. Ray, Hon. Samuel L. Powers, Waldo E. Bullard, MacGrane Coxe, Stanley W. Dexter, R. A. Gunnison, William H. Hotchkiss, Charles L. Hubbell, Seaman Miller, Peter B. Olney, Frank Reynolds, Nathaniel S. Smith, Morris S. Wise, J. Johnston Ray, E. C. Brandenburg, S. C. Mead, J. Harry Tregoe, W. A. Prendergast, J. Ross Diggs, John R. Ainsley and William H. Foster.

Great regret was expressed at the absence of Mr. E. A. Young, of St. Paul, the foremost champion of the cause.

After an excellent menu had been served and a toast to President Roosevelt proposed, Mr. Meek read letters from Senator Hoar, Senator Nelson and others, expressing regret at not being able to attend. He then introduced the first speaker of the evening, the Honorable George W. Ray, the father of the Ray bill, which amended the National Bankruptcy law.

Judge Ray, in the course of his remarks, reviewed the long struggle made to secure proper amendments to the act. He spoke of the faithful work to that end performed by his colleagues on the Judiciary Committee, and by the Referees in Bankruptcy and the Credit Men's organizations. He referred to the undesirable conditions formerly existing under a system of different insolvency laws in various States, and declared that commercial interests could not be carried on advantageously and successfully without uniform laws throughout the country. The object and purpose of the amendments to the Bankruptcy Law, he said, were to build up credit, protect credit, and to secure honesty in dealing. The law as it now stands was just and equal to all classes, both debtor and creditor. It had come to stay, and he was proud of it as amended. He thanked the credit men, referees and others who had labored untiringly in behalf of the amendments, and said that the commercial interests of the country were greatly indebted to the press, particularly the press of this city, for the attention and support given to the movement.

The next speaker, Congressman Powers, of Massachusetts, congratulated the association upon the passage of the Ray Bankruptcy bill. He said it was an important step in the right direction and in the interest of commercial progress; that the framers of the Constitution had sufficient foresight to see the necessity of a uniform system of bankruptcy throughout the entire country, and also the necessity of national control over foreign and interstate commerce.

Morris S. Wise, of this city, Chairman of the Executive Committee of the National Association of Referees in Bankruptcy, in the course of his remarks, said: "We now have a law, thanks to the Ray Amendatory bill, which, in my judgment, has become a permanent addition to the jurisprudence of this country. The law has been made more practical and direct and more satisfactory in its administrative features; it is more just and more protective to creditors, and the honest bankrupt has nothing to fear from the added provisions on the subject of discharge. It is a good law as it stands to-day. It is not perfect, of course, no human law is; but we have at least the satisfaction of knowing that in our great commercial country we now have a uniform law, definite and comprehensive, governing the disposition of insolvent estates, instead of forty-five varying laws, which, as a rule, were conceived in a local and discriminating spirit against the non-resident creditor."

Speeches followed in the order given by Messrs. Wm. H. Hotchkiss, Wm. A. Prendergast, J. Harry Tregoe, Royal A. Gunnison and E. C. Brandenburg.

St. Joseph Credit Men's Association.

The regular monthly meeting of the St. Joseph Credit Men's Association was held at the rooms of the Commercial Club Thursday evening, March 12th. A large attendance indicated the active interest in association affairs taken by the credit men of St. Joseph. In addition to the regular routine business of the evening, a smoker and informal experience meeting was held, each member relating some interesting and unique experience in the handling of credits and collections.

Among other matters discussed was the advisability of prosecuting a test case to determine the constitutionality of the Kansas Corporation Law of 1901, under which some of the Kansas District Courts have held that a foreign corporation soliciting orders in the State of Kansas through traveling salesmen is obliged to comply with the requirements of the law as to filing Articles of Incorporation in the same manner as if it were operating a branch in the State. The matter was referred to for final action to the Executive Committee.

Chairman Travis, of the Legislative Committee, reported on the unsuccessful efforts made to secure the passage of a Bulk Law in Kansas, which were earnestly supported by this Association.

The St. Louis Credit Men's Association.

The membership of the St. Louis Association at the present time is 400.

At a meeting held in February arrangements were made to have sent out by the Secretary, to any retail merchant who might be reported as not carrying any insurance, a copy of the pamphlet entitled, "Fire Insurance an Essential to Credit." A letter has been prepared (which accompanies the pamphlet) to any merchant whose name may be reported by a member of the Association. A copy of the letter follows:

"The accompanying booklet on *"Fire Insurance an Essential to Credit"* is presented with the compliments of our Association and in the belief that its readers may derive pleasure and profit from it.

"Among the purposes of this Association is the protection and education of its members—to aid by precept, example and counsel, in removing causes which lead to financial failure—to establish closer ties between business men—not only those who are members, but between them and their customers.

"The necessity of carrying fire insurance is everywhere recognized; in fact, many firms are unwilling to sell a merchant who carries no fire insurance, while others restrict his line of credit—and yet some business men, for one cause or another, do not afford themselves protection of this kind. We have collected in this booklet the opinions of a score of prominent and successful credit managers, and are sending it, hoping that the able arguments presented may result in good to the recipient."

Some interest has been shown by parties receiving the pamphlet, the letters indicating that it has been received in the proper spirit, and one concern wrote for information regarding three insurance companies whose policies for very small amounts he holds. The reports of mercantile agencies frequently indicate that the party does not carry fire insurance, and it would seem that this is a good work for the various associations to take up. The pamphlet mentioned, as is well known to most of the members, is a series of short contributions by various credit men, showing the importance of carrying fire insurance of a good quality.

BUSINESS TOPICS.

Security.

ADDRESS BY PROF. ALBION WOODBURY SMALL, OF THE UNIVERSITY OF CHICAGO, BEFORE THE CHICAGO CREDIT MEN'S ASSOCIATION.

The first campaign in the human struggle is over, but that is merely the prologue of the human life, for the race has fought that fight and it has won. What is left is the enjoyment of the output and an improvement in the quality of the output, and that is a mere matter of following up the victory and working out the results. The next stage of human progress is the answering of the question, "What shall we do with that which we have secured, control or own?" Our situation is not a new situation, and ever since men have been living together they have been asking, who shall have what we produce and on what terms shall that which we produce be divided. The problem of society to-day has reduced itself in many ways to the terms of the problem, the distribution of material wealth and of opportunities to gain material wealth. The situation of human progress is substantially this: A strong man, an original man, a venturesome man, gets at some way of serving his own ends that people have not had to force. He finds a new hunting ground or a new fishing pool, or invents some new tackle and that turns out to be a good thing for that original strong man.

But he is only a man. I am a man, too, and I say, if that thing is good for him it will be good for me, I will have that myself, and presently, in a century or two, he obtains the possession of the original man, and that is the standard life of the generality of society. Now, to-day in our process of distributing there has come a situation in which many people believe—and belief is a fact which has to be counted on, whether the belief is in accordance with the reality or not—many people believe not merely that there is not equality in the distribution of goods and opportunities, but many people believe, and if I could put this into the minds of people who really do not see the point of it—that it would be a vast piece of social service—many people believe, having been taught in a certain philosophy that it is wrong that one kind of man should withhold what another kind of man has actually earned, and so leave that second kind of man in possession of less than he has earned. If we could persuade all our American citizens that such an idea is a part of civilization, we would make a long step toward the relief of the situation which exists in our industrial society.

I have just been having the privilege every week for the last six weeks of meeting a very intelligent and zealous society in Pittsburg. And one of the questions which they put is this: They say, I want you to answer this question: Suppose I

produce \$4.75 a day and get only \$2.50 a day? I answer: If you take the whole output of your plant and divide it by the number of wage laborers in that business and the result is \$4.75, that does not prove that each wage laborer has earned \$4.75 by his day's work, but that idea has been so firmly implanted in the minds of a large section of the laboring element of our country, as well as European countries, that we have got to meet that which is coming to have to new life at the first sign of business depression.

No one believes that any man in the world has any right to a cent that he does not earn, and every one believes that every man has a right to every cent that he earns. No man has any more right to take the pay of any day laborer in Chicago at a rate below his earning than he has to place the pay of the President of the United States below his earning. Now, the gist of the labor question is: Shall one type be interested in distribution for more than its proportional share in determining the terms on which all interests con-labor question is the question: Shall one type be interested in distribution for more than its proportional share in determining the terms on which all interests concerned shall do business together? That is the legitimate situation. Labor feels that capital has more than its due of power to dictate the term of that labor. The general public believes that it has not its proper share or influence in determining the nature of the co-operation between labor and capital, and the problem of the public is how to secure the proportional opportunities and influence, the terms on which our common life together shall proceed.

The effects of human motive have never been more distinctly expressed than in that tirade of Cassius against Cæsar, and that I venture to quote:

"I cannot tell what you and other men think of this life; but for my single self, I have as lief not be as live to be in awe of such a thing as I myself. I was born free as Cæsar; so were you; we both have fed as well; and we can both endure the winter's cold as well as he; ye gods, it doth amaze me, a man of such a feeble temper shall so get the start of the majestic world and bear the palm alone! Men at some time are masters of their fates; the fault, dear Brutus, is not in our stars, but in ourselves that we are underlings. Brutus and Cæsar: What should be in that Cæsar? Why should that name be sounded more than yours? Write them together. Yours is as fair a name; sound them, it doth become the mouth as well; weigh them, it is as heavy; conjure with them, Brutus will start a spirit as soon as Cæsar. Now, in the name of all the gods at once, upon what meat doth this our Cæsar feed that he grows so great?"

That is all there is of it. That is human.

The struggle will not cease until certain elements of proportion are settled in this world of production and distribution. You nor I can see the result of that settlement, but the merit of civil service is but a single straw showing in which direction the wind is blowing.

It should be the pleasure and the duty of every faithful, industrious man to share in the output of the world's industries so as to realize the result in proportioning the output to the value of the services.

Forty years before I was born Charles Sumner entered the United States Senate, and one of the older Senators said to him, "It is a pity that you have come upon the world's stage so late; all the great problems are settled, nothing is left for the ambitious man," but Mr. Sumner found that all the great problems had not been settled.

The problems of human society are just opened. They are not settled for any man with spirit and blood in his veins. There are going to be problems enough ahead as long as any of your great-great-grandchildren live. To make this possible we should remember the name of Phil Kearney. A soldier said to him, "Where shall I get into the battle?" He said, "Oh, anywhere, there is beautiful fighting all along the line."

Is It Necessary to Send Receipts?

DISCUSSED BY J. H. SCALES, OF W. B. BELKNAP & CO., LOUISVILLE, KY.

The question of "the discontinuing of sending receipts in acknowledgment of all forms of remittances, upon which the endorsement of the receiver would be a legal receipt," seems to be one upon which little can be said, certainly little that may be termed new.

In the first place, the point from which the subject should be considered is the result of actual experience as against the imaginary outcome, pictured by those who would hold to the old methods.

This question was taken up by the house I have the honor to represent nearly two years ago. It had been our custom for some time previous to print on our remittance forms: "No acknowledgment necessary." Having experienced no inconvenience from the practice, we concluded it could be extended to our own customers, and so decided to try it.

I believe we were the pioneers in this move in Louisville, and now, after twenty-one months of actual experience we are convinced that it was a move in the right direction. So successfully has it worked that I have yet to see the first complication to arise from it and you

can get an idea of the great saving of labor and postage to us thereby when I tell you that we acknowledge the receipt of less than 10 per cent. of the remittances that come to us.

However, it is impossible to eliminate altogether the formal receipt, for it must be given in some instances, such as formal vouchers required by corporations, settlements with administrators, receivers, etc. It is also our custom to acknowledge receipt of currency when the amount exceeds \$1, and, if a customer insists upon it, we send him receipts regularly. In other words, if the question of business or no business hangs upon a receipt, we send the receipt.

The point thus far gained has required patience and some persistence. On many occasions we have met opposition, but when our printed notices fail to give satisfactory explanation, we write special letters, setting forth our views and that is generally the end of the matter, though sometimes we have been unsuccessful in persuading the customer to see it our way.

In some instances the opposition has been persistent—in others, it seemed ludicrous.

The same practice has also been adopted by representative institutions in other cities, and its success is no longer a question of doubt with them, and the fact that the subject was discussed with favor by the National Association of Credit Men clearly demonstrates the manner in which it is being received by the mercantile interests at large.

This testimony also shows that the result has been satisfactory here as elsewhere, and, having been obtained by individual effort, if a united effort be made, the result will be even more gratifying.

As another proposition, the present era in commercial life demands the introduction of the most modern methods and the discarding of all practices which are unnecessary or cumbersome, so long as it does not interfere with, or retard the progress of business; in other words, that we take the shortest cut to reach a given point, and this principle applies to the credit man as well as to any department, for he must see to it that the machinery of his department works with the least possible friction and that the expense does not compare unfavorably with that of others, and, as we have already shown, the abolition of the sending of receipts, though comparatively small, is one feature that counts.

At this point I will digress to say that if it is decided by the Louisville Credit Men's Association to inaugurate a general move of this kind, I think it would be well to incorporate some other features which are of a kindred nature, viz.:

FIRST.—Insist upon the customer remitting for specific charges.

SECOND.—Urge him to use a regular remittance form or make an intelligent statement of the remittance in his letter, and then let him specify on his check the invoices it is intended to pay.

The third feature will require some explanation.

It will doubtless be remembered that when this subject came up for discussion at the meeting of the National Association of Credit Men here last June, there was an objection offered on the ground that the discontinuing of the sending of receipts would induce a customer to send his individual check instead of exchange.

This is a point worthy of consideration, especially by those who are doing a considerable amount of business outside of the "free" States and have to pay collection charges on local checks at the rate of 25 cents per hundred dollars.

When paid and cancelled, the customer's check goes into his possession and can be kept as a record, but the cashier's check, of course, remains with the bank; therefore, if he has not the receipt, it is only natural that he should want his own check properly endorsed.

This can be overcome by suggesting that the customer buy exchange in his own name, and then endorse it over to the firm he intends to pay, specifying, if he chooses, in the endorsement the bills to be paid. Then, should any question or dispute arise, which is exceedingly doubtful, it is a matter of little trouble to obtain a complete history of the transaction by going to the records of the local bank.

Now, if we shall have convinced ourselves that the affirmative side of this question is the correct one, the next proposition is, how shall it be made effective.

Most of our dealings are with the countryman or small townsman, which is practically the same, and, from my observation, he is a man disposed to cling to the traditions of his fathers. It could hardly be expected that he would voluntarily co-operate in this move. He will generally affiliate with the same political party and adopt the same form of religion and you will also observe that he will conduct his business as he was taught to do when growing up, though this is not necessarily from any lack of natural ability or intelligence.

A great many of the men who have become prominent in the various avocations of life have been men from the country. They had the latent brain power, supported by a strong constitution, that only needed to come in contact with city life or activity and opportunity for development; and, while

the country gives much to the city in this and other respects, there still seems to be a general law of equalization, whereby the city gives back much to the country. Almost everything new the countryman gets comes from his brother in the city. The improvement in his farm equipments, his vehicles, his household goods, his styles—in fact, everything of this nature he gets from the city, and among them his business methods. He is sometimes skeptical and generally slow to take up modern methods, but we must not allow him to put us off because he was taught a certain thing must be so and so.

The necessity for such improvements is first apparent to the larger commercial enterprises, which also of necessity must be located at the larger trade centers, and, therefore, it devolves upon such institutions to see to it that these methods are further disseminated through the smaller channels of trade.

Relation of Credit Men to Business Methods.

BY M. MARTIN KALLMAN.

The progressive credit man has a double incentive for making the most of all that the system expert has to offer. Of all men, the maker of credits requires exact information, digested information and information that is instantly available. These are requirements which the capable and conscientious systemizer will meet wherever his services are procured. Therefore, the first reason why the credit man has a peculiar interest in the expert systemization of business is because the modern profession of the methodizer is one that ministers directly and vitally to the self-interest of the credit desk.

But there is another and quite as interesting reason why the maker of credits and the expert in business methods are on common ground. Whatever makes a credit "pan out right" is the kind of thing the man at the credit desk is seeking. Whatever adds to the strength, the soundness and the general prosperity of the men to whom he has extended credit adds to his own strength and prosperity. And by the same token and weakness in the affairs of a man on his credit list is a potential weakness of his own.

In one sense at least the credit man is the Father Confessor of the mercantile world; into his ears are poured the confidences of hundreds of business men. Some of these may dodge and deceive, but in the main they are men of honest intentions who go in good faith to the credit man of the big metropolitan wholesale house for counsel and advice. And in very large measure this counsel is put into practice—for the credit man speaks "as one having authority." His

advice has a convincing quality that could not possibly obtain in the suggestions of any man who did not sit in judgment upon the final issue of the matters upon which his advice is given.

No man is in a position to give so much help, inspiration and practical assistance to the retail merchant as the credit man of the wholesale house.

The experience of most credit men is that "loose methods" are generally at the bottom of failure on the part of the smaller merchants promptly to meet their bills. Andrew Carnegie declares that every legitimate business can, by right management, be made to succeed. That is only another way of saying that success is a question of business methods rather than of so-called "circumstances" outside the possible influence and control of the individual in question.

To put it differently, most successful merchants are prone to be unsystematic, to lapse into slipshod methods in either their merchandising or their accounting department—perhaps in both. Is there a single instance of a merchant who has a black mark and a bad record whose business has been consistently conducted in the lines of a good, modern business system?

When it comes to hard facts you will find that the merchant who runs his business sharply on the lines of modern up-to-date system does not fail; he succeeds. Why? Because he knows precisely where he stands, how much business he is doing to-day, how much he is reasonably sure of doing to-morrow. Because little leakages are stopped; because small economies are effected; because short cuts are taken; because every possible advantage is made the most of and every opportunity developed by the automatic action of a system.

There are a good many definitions of system and method; but system means *common-sense made automatic*. It means order of the active, aggressive sort—a positive force that "keeps things moving" and that takes care of everything in season, just as nature does.

As to whether the average retail merchant is in need of this kind of commodity, credit men are the best judges. The smaller the merchant, the more apparent is his lack of anything approaching a business system. No house can grow to the proportions of a wholesale business without having some semblance of a modern business system, but many a retail establishment has not even a "friendly resemblance" to a real business method.

In contending that lack of a good business system is the ear mark of a failure in merchandizing, do not assume that there is anything supernatural about any of the first-class business methods that will charm away disaster or win success irrespective of brains, energy and honesty.

The mercantile agencies upon whose information is based the larger part of the credit granted throughout the country, have felt and responded to the powerful influence of the National Association of Credit Men. Records kept by individual credit men as to the character of the service rendered by the mercantile agencies have been submitted to the National Association for consideration at their annual conventions, and in turn by the association, with its conclusions, submitted to the agencies; the result has been a marked improvement in the character and scope of the service. Heretofore there has existed to a greater or less degree a feeling somewhat akin to distrust among competitive business houses; men engaged in the same line of trade were loth to communicate freely with each other regarding their business or customers, fearing that in some degree it might be detrimental to their own interests. The elimination of this apprehension, and the establishment of a feeling of confidence in each other is one of the aims of the Credit Men's Association; and this much-to-be-desired result has been

I have cited here a few illustrations of "What's the Use?" of Credit Men's Associations, and will presume to ask and answer a question. Who are the men who compose these associations? Are they men who wish to exploit some scheme for their own emolument? Are they interested in some private enterprise which will bring them rich returns? No, not at all; they are men occupying trying and exacting positions, intrusted with the care and distribution of the capital of large business enterprises, and to whose judgment and knowledge of mankind is confided the difficult task of so handling the capital, and placing it on credit lines that it shall be returned to its owner with the best possible results; men who have acquired the art of knowing men and how to trust them—these are the men who have given of their time and means with no expectation of reward except that which comes to him who "Does to others as he would that others do to him." Animated by this spirit, and by the knowledge that in unity there is strength, they have put in practice their belief, and by unity have formed an association which to-day makes itself felt in every part of the business world; they are not selfish and sordid, but are willing to sacrifice their time and means, expecting no return to themselves except such as inure to the benefit of the business world in general.

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